

**STATEMENT OF
INVESTMENT GOALS, OBJECTIVES AND POLICIES
FOR THE CITY OF FARGO
CITY EMPLOYEES PENSION PLAN**

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The City Employees Pension Fund is operated by the Pension Board pursuant to the authority granted in the City of Fargo Home Rule Charter, Chapter 6-02. This fund is managed by a seven person Board elected by the membership, or appointed by ordinance. Two members are elected every two years on a rotating basis. Elections are held in July of each year.

Plan Description. The City of Fargo Employees' Pension plan is a cost-sharing multiple employer public employee retirement system. The plan is integrated with social security and therefore, is considered a supplemental plan. All full-time City employees not covered by another plan are eligible for participation in the Employees' Pension Plan.

Membership in the plan on January 1, 2007 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	182
Terminated vested and deferred beneficiaries	8
Active plan members	502

Number of participating employers: 2

Employees may be eligible for early, normal or disability retirement. The plan permits early retirements at age 55 with at least 5 years of service. Normal retirement age for full benefits is age 62 or when an employee's age plus their years of service as a full time city employee reaches a sum of 90.

Employee death benefits of \$20,000 are paid to a designated beneficiary for a participant who dies prior to retirement. If a participant dies after retirement, the designated beneficiary will receive a \$3,000 death benefit.

Participants are fully vested in the plan benefit after five years of full-time employment. Non-vested participants are eligible for a full refund of their contributions plus interest at 5%. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin between ages 55-62 or a lump sum payment. Lump sum settlements are allowable up to age 55. Lump sum payments are computed as the greater of the actuarial value of plan assets or the "cash balance" in their plan account. The cash balance consists of the employee contributions, plus one-half of the employer's contribution since January 1, 1990, plus interest at 5%.

The City makes a matching contribution of \$25 per month to a deferred compensation plan on behalf of pension plan members who also contribute a minimum of \$25 per month to the deferred compensation plan.

Benefit provisions are established under the authority of the City Commission.

Adopted by the City Employees Pension Board October 31, 2007

Contributions. Participating employees contribute to the plan at a rate of 4.5% of salary and the employers contribute at a rate of 6.0% of regular salary for all employees. The contribution rates are established by local ordinance, and the employers contribution rate is set by the City Commission. Costs of administering the plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves. The net assets at December 31, 2006 are \$30,248,640 and the entire amount is reserved for employee pension benefits.

2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The City Employees Pension Board is required to develop asset allocation plans pursuant to its responsibilities are outlined in the City of Fargo Home Rule Charter, Chapter 6-02. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the City Employees Pension Fund must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manger has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

3. DELEGATION OF AUTHORITY

Management responsibility for City of Fargo City Employee Pension funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the City of Fargo City Employee Pension funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

4. INVESTMENT GOALS

The investment goals of the Fund have been established by the City Employee Pension Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the City Employee Pension fund to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2 To obtain an investment return in excess of that needed to allow for increases in the benefit plan multiplier over time.

5. INVESTMENT PERFORMANCE OBJECTIVE

The City Employee Pension Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law and City Ordinances.

It is in the best interest of City Employee Pension Board and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent actuarial study without exceeding the expected risk for the period as measured by standard deviation.

6. ASSET ALLOCATION

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the City Employee Pension Board has established the following asset allocation:

Domestic Equities - Large Cap	30%
Domestic Equities – Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
Expected Return	9.3%
Standard Deviation of Returns	10.5%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

7. RESTRICTIONS

- A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers
- C. No transaction may be made which threatens the tax exempt status of the Fund.
- D. No unhedged short sales or speculative margin purchases may be made.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

8. INTERNAL CONTROLS

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud

or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

9. EVALUATION

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.


The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with these investment goals, objectives and policies.
- A general market overview and market expectations.
- A Review of fund progress and its asset allocation strategy.

In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.



Kent Costin
City of Fargo
Director of Finance



Steve Cochrane, CFA
Executive Director
North Dakota Retirement and Investment Office

Date: 11/8/2007

Date: 11-16-07